

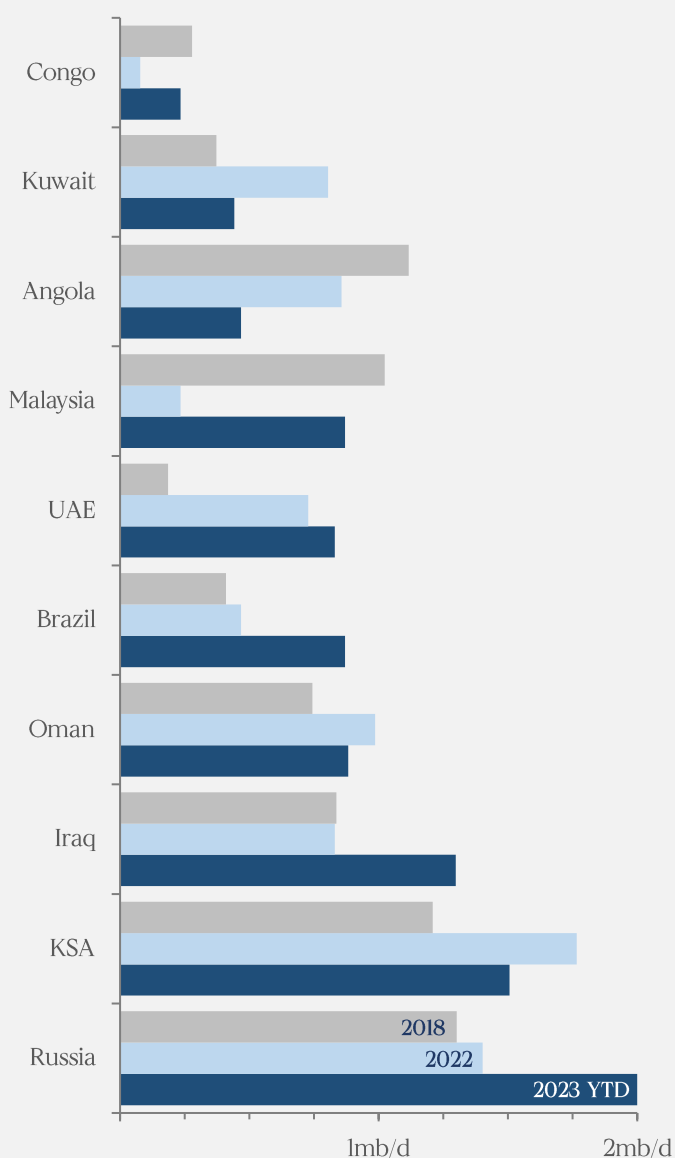
# Daily Thought

## Is War Bullish or Bearish – September 5<sup>th</sup>, 2023

It's only a matter of time before the inevitable Taiwan invasion whisper resurfaces. While we have no strong views on China's relationship with Taiwan, whether an invasion may happen or not, there are implications for the oil market. If China was to invade Taiwan, we believe the implications would be less impactful for the global crude and product market, then it would change the permanent trajectory of global economic growth, and thus growth in energy consumption. China absolutely dominates the raw material market, both supply and consumption. China

consumes almost half the world's concrete, aluminum, nickel, steel, coal, and copper – and given economic sanctions, we'd expect that demand to moderate quickly – and hence, a slowdown in one of the largest industrial economies would absolutely be detrimental to the pace of global economic growth. Unlike Russia, China is a net crude importer. With approximately 4mb/d of domestic production. If countries are to sanction all imports from China, the shortages of raw materials, and WIP/finished goods would be staggering, it would be all but impossible to replace China as a manufacturing hub, and GDP growth would suffer accordingly. In recent years, China has shifted their crude imports to receive cargoes from friendly countries, along with increasing their own domestic production. When it comes to imports, we see just over 2mb/d coming from Europe, North America, and other developed countries that would have to place their cargoes

(Fig. 1) China Crude Imports by Country



Source: Bloomberg, Kpler, HTM Analysis

### Daily Pricing & Week on Week Benchmark Chg.

#### CAD Priced Liquids

Condy | \$112.45 (+6.9%)  
 Synthetic | \$120.77 (+8.3%)  
 WCS | \$91.08 (+10.4%)

#### USD Priced Liquids

Bonny Lt. | \$91.80 (+2.7%)  
 LLS | \$87.85 (+4.7%)  
 MEH | \$86.95 (+5.4%)  
 NYMEX | \$85.55 (+7.2%)  
 WTI FOB | \$80.65 (+0.2%)

#### CAD Priced Gas

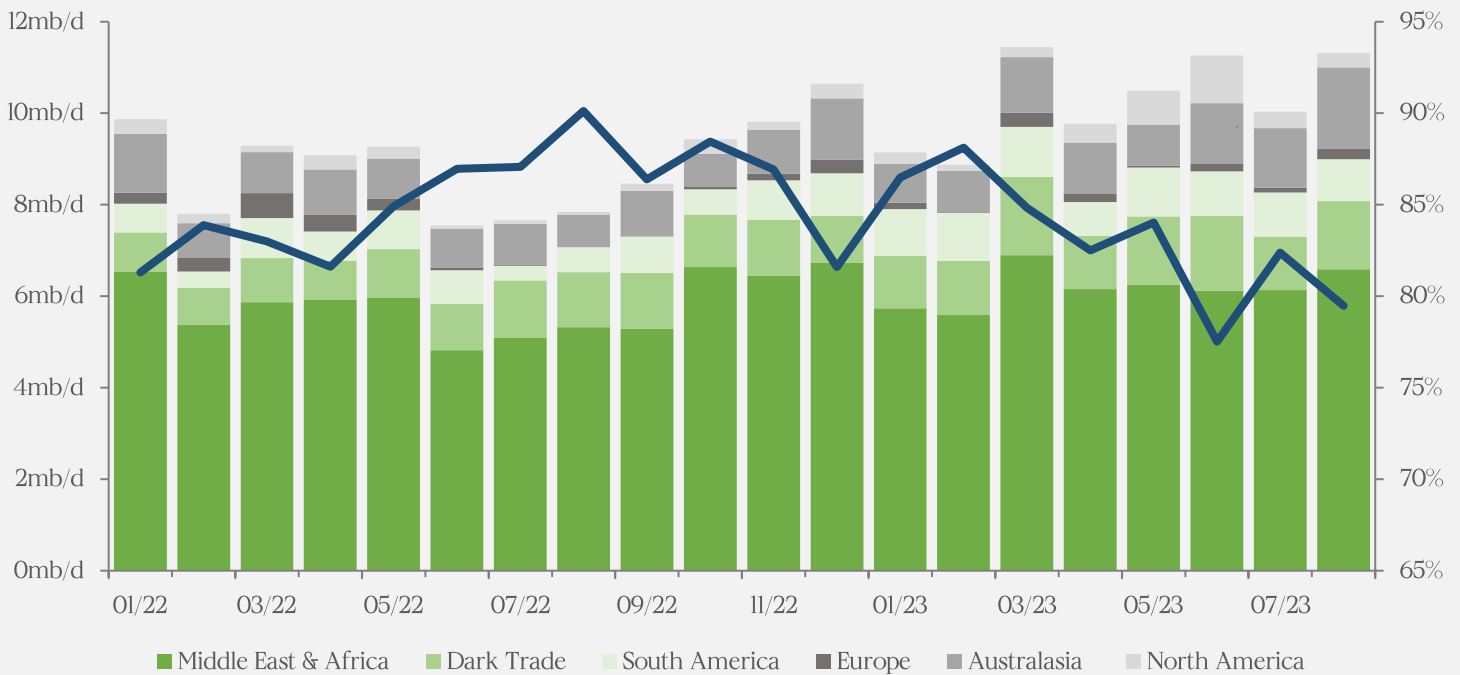
AECO | \$2.77 (+5.0%)  
 Alliance | \$2.86 (+8.1%)  
 Empress | \$2.65 (+5.2%)  
 Station 2 | \$2.29 (+0.2%)

#### USD Priced Gas

Dawn | \$2.31 (+8.2%)  
 Houston | \$2.51 (+6.6%)  
 Malin | \$2.45 (-14.3%)  
 PG&E | \$3.63 (-17.1%)  
 SoCal | \$3.20 (-30.4%)  
 Waha | \$2.13 (+6.8%)

elsewhere. Though, our view is that the market is generally efficient, and will reorganize (as we eventually saw with Russia) accordingly. 80% of seaborne imports come from regions that would likely be hesitant to sanction China – with 6mb/d from the Middle East and Africa (and more volume ability from Africa), ~1.5mb/d from the dark trade, including Russia, and slightly less than 1mb/d coming from South America (mainly Brazil). While shipping logistics would prove difficult – the market would reorganize itself fairly quickly, given China’s concentration of friendly

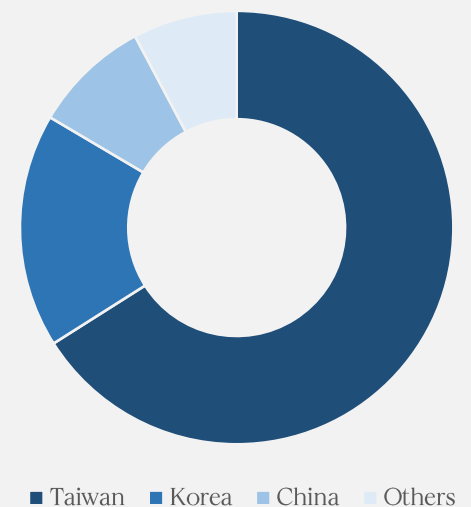
(Fig. 2) China Seaborne Imports by Country



Source: Bloomberg, Kpler, HTM Analysis

import/transit counterparties, and frankly, the globe's reliance on China for pretty much everything we do. While we wouldn't expect the world to "go easy" on sanctions, that fact is that most of our developed world luxuries, to some extent, flow from China. When raw material flows, and commodity movements sort themselves out (which they would, eventually) the concentration of the world's semiconductor, and general "chipset" manufacturing in Taiwan would grind technology related GDP growth to a halt. The digital transformation of various industries is attributable to half of the world's GDP growth, and cutting off the vital supply of DRAM, semiconductors, and foundry wafers, would be awful, devastating actually. The retail effects of a sanctioned China would be obvious (COVID on steroids), but the loss of factor productivity, and one of the developed world's leading growth drivers would stunt oil demand for decades forward. While we again, don't have a real concrete view on China invading Taiwan, we would see the invasion as more of a risk to the outer years on the curve on account of much weaker demand growth. Of course, in a potential world war scenario, it's not top of mind, but it would be incrementally bearish E&P valuations.

(Fig. 3) Foundry Revenue by Country



Source: Bloomberg, Kpler, HTM Analysis